NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE BANK LENDING SURVEY

Fourth Quarter Report 2022

Belgrade, February 2023

Introductory note

In 2014, the National Bank of Serbia (NBS) launched the bank lending survey. The purpose of this survey is to improve the analysis of developments in the credit market by gaining insight into bank representatives' perspectives of actual and expected changes in bank loan supply and private sector loan demand.

The survey consists of ten questions relating to loans to enterprises and households. Respondents are asked about changes in credit standards[1], factors affecting their change, changes in terms and conditions for loan approval, changes in loan demand and factors affecting loan demand.

This Report **presents the results of the bank lending survey carried out from 4 to 20 January 2023**. The survey reports bank representatives' views on changes during the fourth quarter of 2022 and expected changes in the credit market in the first quarter of 2023. The survey included 20 banks, and thus provides for the representative coverage of the credit market as these banks account for over 99% of the banking sector balance sheet total.

The survey results are presented as net percentages. As regards credit supply, the net percentage is defined as the difference between the sum of the percentages of banks responding "tightened considerably" and "tightened somewhat" and the sum of the percentages of banks responding "eased considerably" and "eased somewhat". A positive value of the net percentage indicates net tightening, and negative – net easing of credit standards. As regards the factors, the net percentage is defined as the difference between the percentage of banks responding that a given factor contributed to tightening of credit standards and the percentage of banks responding that the same factor contributed to their easing. As regards demand for loans, the net percentage is defined as the difference between the sum of the percentages of banks responding that demand "increased considerably" and "increased somewhat" and the sum of the percentages of banks responding that it "decreased considerably" and "decreased somewhat". Hence, a positive value of the net percentage indicates a net increase, and negative – a net decrease of demand.

The term "FX" in the analysis of results refers to loans granted in foreign currency or dinars, but indexed to foreign currency.

[1] Credit standards are written and unwritten internal guidelines or criteria that reflect the credit policy of the bank (e.g. priorities in terms of loans categories, collateral, sector, region, etc.).

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Overview

The results of the January survey indicate that in Q4 2022, banks continued tightening their corporate credit standards, though to a lesser extent than expected in the previous survey. The tightening concerned mostly FX-indexed loans, and, in terms of the size of enterprises, it affected more large enterprises than SMEs. Banks expect further mild tightening in Q1 2023.

Banks assessed that corporate loan demand rose during Q4 – for FX/FX-indexed loans and for short-term dinar loans. The financing of working capital and restructuring of existing liabilities are recognised as the factors contributing to rising corporate loan demand. Banks expect further growth in corporate loan demand in Q1 2023.

In Q4 2022 banks continued tightening their household credit standards as well, primarily for dinar cash loans (and refinancing loans) and FX-indexed housing loans. Moderate tightening of household credit standards is expected to continue in Q1 2023.

According to banks, household loan demand subsided during Q4 due to the rise in real estate prices. The labour market is also cited as the factor dampening loan demand. Banks expect such trends to extend into Q1.

Table 1 Bank assessments regarding supply and demand for selected loan categories

	Supply (credit standards)		**Demand**	
	Q4 2022	Q1 2023 (expectations)	Q4 2022	Q1 2023 (expectations)
Corporate sector	↑	↑	↑	↑
SMEs	↑	↑	↑	↑
Large enterprises	↑	↑	↑	↑
Farmers	↗	-	↓	↗
Household sector	↑	↑	↓	↓
Cash (dinar)	↑	↑	↓	↓
Refinancing (dinar)	↑	↑	↓	↓
Housing (FX)	↑	↑	↓	↓
Consumer (FX)	↗	↑	-	-

Legend:

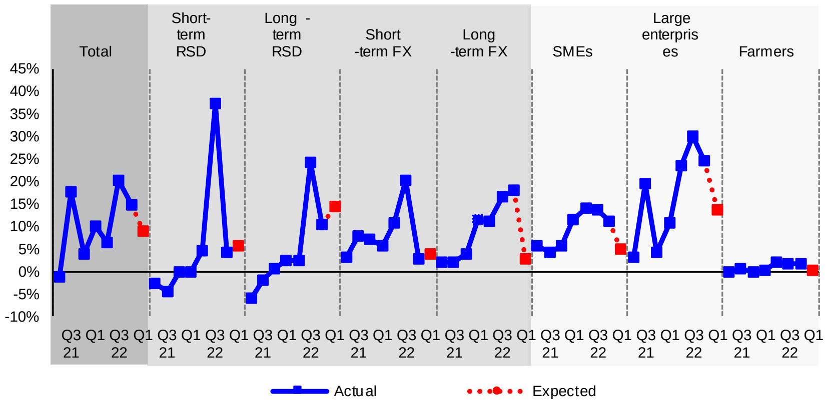
↑ Increase in demand (net percentage above 5%)
↑ Tightening of credit standrads (net percentage above 5%)
↗ Increase in demand / tightening of credit standards (net percentage up to 5%)
- Without change
↘ Decrease in demand / easing of credit standards (net percentage up to 5%)
↓ Decrease in demand (net percentage above 5%)
↓ Easing of credit standrads (net percentage above 5%)

1. Loans to enterprises

1.1. Credit standards and contributing factors

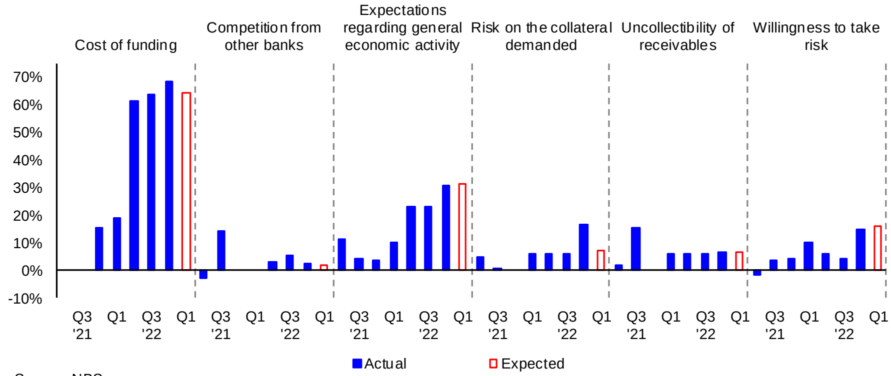
The January survey results show that banks tightened their corporate credit standards (internal criteria for loan approval) in Q4 2022 (net percentage at 15%), though to a much lesser extent than expected in the October survey, and less than in the previous quarter. The tightening concerned FX-indexed more than dinar loans, while in terms of the size of enterprises, it mostly affected large enterprises.

Change in credit standards as applied to the approval of loans or credit lines to enterprises
(net percentage)



Source: NBS.
* Positive value indicates tightening of credit standards and negative - easing.
** The intensity of change is not shown in charts.

Factors affecting credit standards as applied to the approval of loans or credit lines to enterprises
(net percetage)



Source: NBS.
* Positive value indicates the contribution of individual factors to the tightening of credit standards and negative - to the easing.
** The intensity of change is not shown in charts.

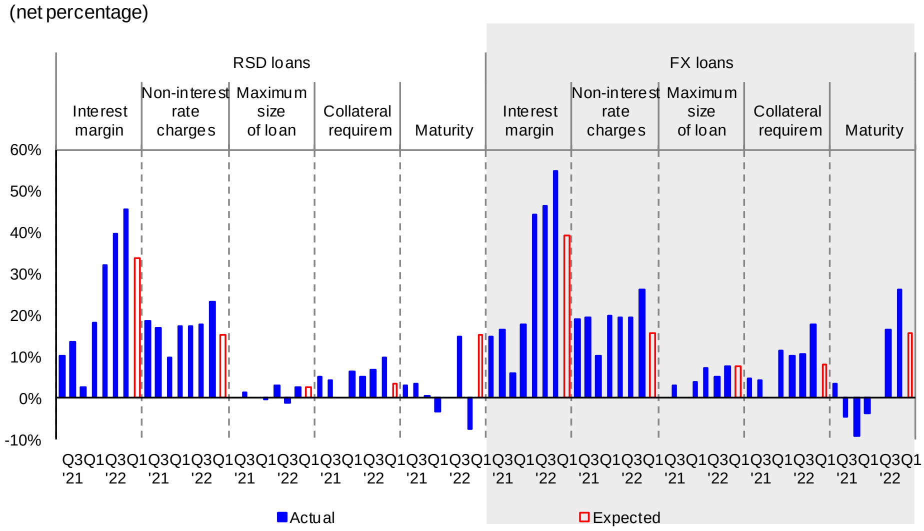
The tightening of credit standards primarily reflects the higher costs of the sources of funding (consistent with the effects of the monetary policy tightening by the NBS and the ECB), and uncertainty surrounding the overall economic situation, and the consequently reduced risk appetite. In addition, some banks stated that a nudge towards standard tightening also came from non-performing receivables, the quality of required collateral, as well as dampened competition in the banking sector due to bank mergers.

Under the impact of the same factors, bank expect the tightening of corporate credit standards to continue in Q1 2023 as well (net percentage at 9%).

1.2. Conditions and terms for approving loans to enterprises

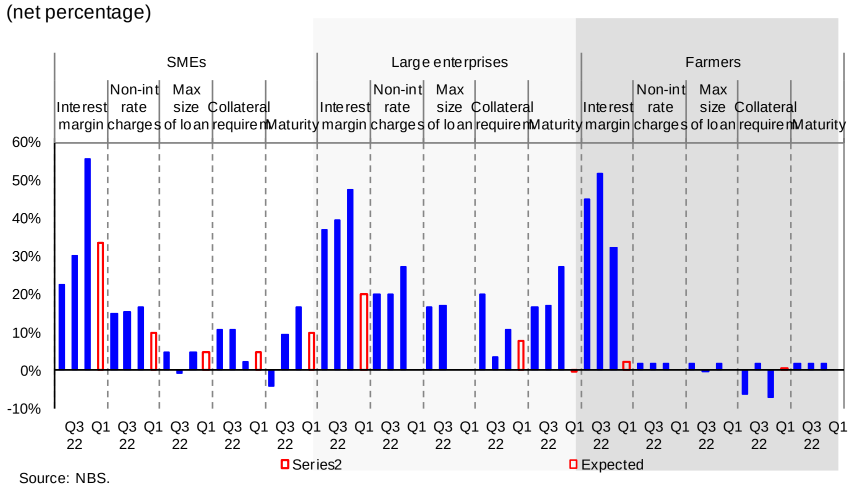
Parallel with the tightening of standards, banks assessed that price conditions for loans to enterprises (both dinar and FX/FX-indexed loans) were also tightened in Q4, and they expect the trend to continue in the following quarter, consistent with the ongoing monetary policy tightening by the NBS and the ECB. Price conditions were made more restrictive for all enterprises, regardless of their size.

Change in conditions and terms for approving loans or credit lines to enterprises
(net percentage)



Source: NBS.
* Positive value indicates tightening of conditions and negative - easing.
** The intensity of change is not shown in charts.

Change in conditions and terms for approving loans or credit lines to enterprises
(net percentage)



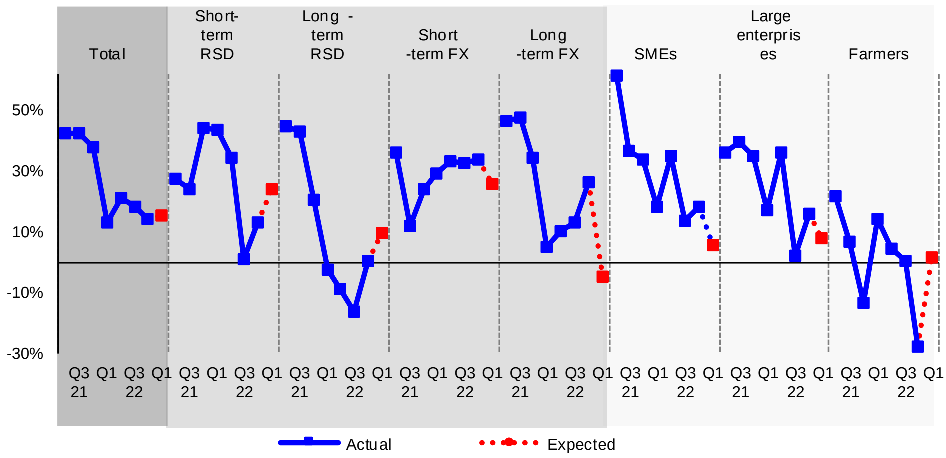
Source: NBS.
* Positive value indicates tightening of credit standards and negative - easing.
** The intensity of change is not shown in charts.

In addition, banks lowered the maximum loan maturity, tightened the collateral requirements and reduced the maximum loan amount.

1.3. Demand for loans to enterprises and contributing factors

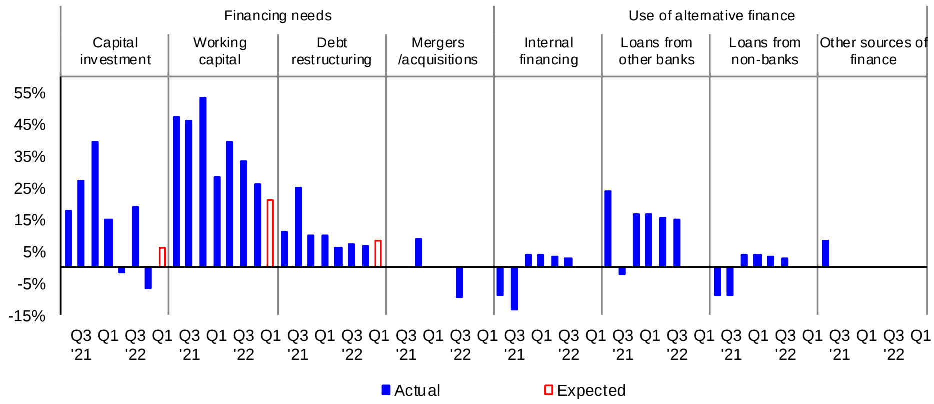
Banks assessed that corporate loan demand went up in Q4 (net percentage at 14%), though somewhat less than in Q3, while further growth is expected in Q1.

Change in demand for loans or credit lines to enterprises
(net percentage)



Source: NBS.
* Positive value indicates an increase in demand and negative - a decrease.
** The intensity of change is not shown in charts.

Factors affecting the demand for loans or credit lines to enterprises



Source: NBS.
* Positive value indicates the contribution of individual factors to an increase in demand, and negative - to a decrease .
** The intensity of change is not shown in charts.

Banks judge that the increase in demand was recorded for short-term dinar loans, as well as for short- and long-term FX/FX-indexed loans.

Demand growth was recorded mostly for SMEs, followed by large enterprises, while farmers' demand for loans dampened. Banks assessed that the need for financing working capital and restructuring existing liabilities were the dominant factors contributing to higher corporate loan demand.

Conversely, banks assessed that capital investments contributed negatively to loan demand in Q4, but they still expect the same factor to drive up the demand for their loans in Q1 2023.

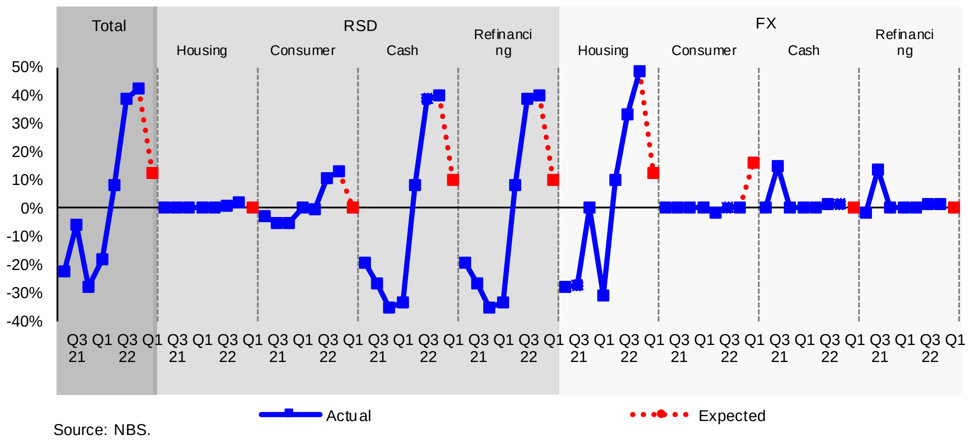
2. Loans to households

2.1. Credit standards and contributing factors

The survey results indicate that household credit standards were tightened in Q4 2022 (net percentage 43%), which corresponds to the expectations stated in the previous survey. Banks expect further tightening of household credit standards in Q1 2023, though to a lesser extent compared to Q4.

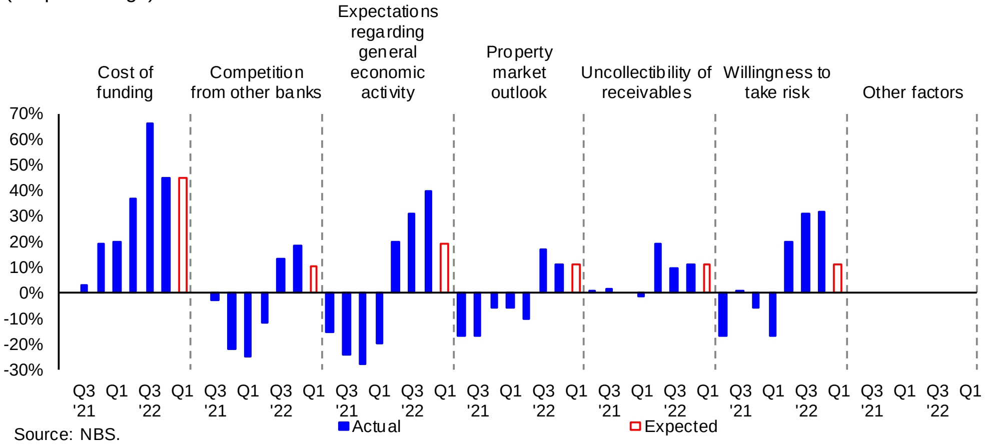
The tightening in Q4 mostly pertained to FX-indexed housing loans and dinar cash loans (including refinancing loans).

Change in credit standards as applied to the approval of loans or credit lines to households (net percentage)



Source: NBS.
* Positive value indicates tightening of credit standards and negative - easing.
** The intensity of change is not shown in charts.

Factors affecting credit standards as applied to the approval of loans or credit lines to households
(net percentage)



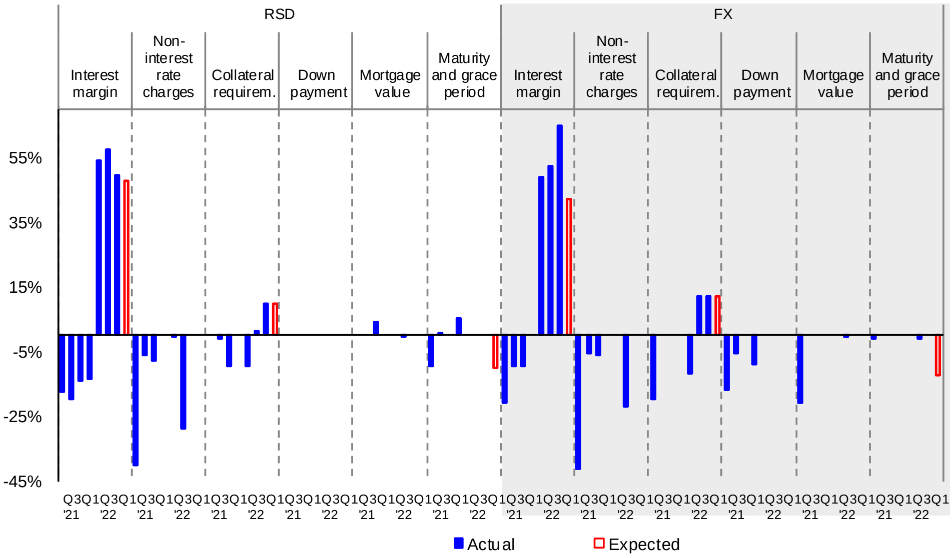
Source: NBS.
* Positive value indicates the contribution of individual factors to the tightening of credit standards and negative - to the easing.
** The intensity of change is not shown in charts.

In banks' view, elevated costs of the sources of funding and uncertainty regarding the overall economic situation worked the most towards the tightening of credit standards, the same as with corporates, reflecting on dampened risk appetite. In addition, some banks assessed that a nudge in that direction also came from the situation in the real estate market (growth in real estate prices with rising interest rates) and lower competition in the sector. Also, some banks pointed out the risk of rising non-performing receivables as a factor of credit standard tightening.

2.2. Conditions and terms for approving loans to households

Banks reported an increase in their interest margins in Q4 for both dinar and FX-indexed loans, and a tightening of collateral requirements. On the other hand, they did not change other requirements for household loans (maximum maturity, maximum amount, down payment and mortgage value). They did not change their fees and commissions either, after having previously trimmed them under the impact of NBS measures, which capped the prices of the basic payment account package and reduced the payment services fees in banks that had earlier unjustifiably increased them.

Change in conditions and terms for approving loans or credit lines to households
(net percentage)

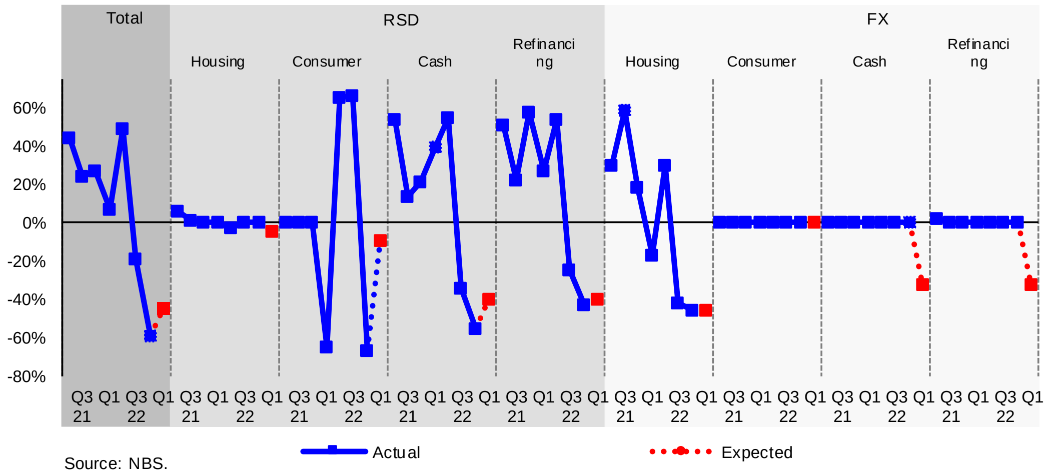


Source: NBS.
* Positive value indicates tightening of conditions and negative - easing.
** The intensity of change is not shown in charts.

2.3. Household loan demand and contributing factors

In banks's view, household loan demand contracted significantly during Q4 (net percentage – 60%), and is expected to shrink further in Q1 as well, though to a somewhat lesser extent.

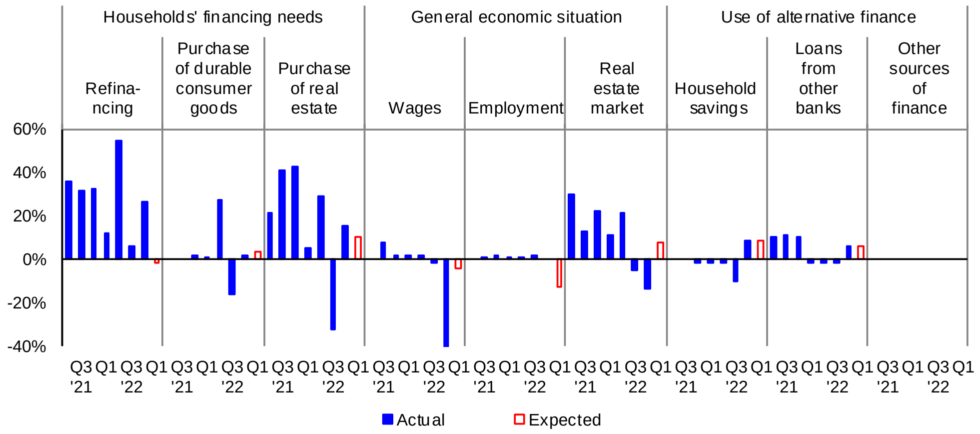
Change in demand for loans or credit lines to households
(net percentage)



Source: NBS.
* Positive value indicates an increase in demand and negative - a decrease.
** The intensity of change is not shown in charts.

Household loan demand decreased for the dominant loan categories – dinar cash loans (including refinancing loans) and FX-indexed housing loans. According to banks, rising real estate prices and interest rates had a dampening effect on household loan demand.

Factors affecting the demand for loans or credit lines to households
(net percentage)



Source: NBS.
* Positive value indicates the contribution of individual factors to an increase in demand, and negative - to a decrease.
** The intensity of change is not shown in charts.